

**LEMON GROVE SANITATION DISTRICT  
AGENDA ITEM SUMMARY**

**Item No.** 4  
**Mtg. Date** August 2, 2016  
**Dept.** Public Works

**Item Title:** Amendment to the Agreement with NBS Government Finance Group for the Sanitation District Rate Study

**Staff Contact:** Mike James, Assistant City Manager / Public Works Director and Tim Gabrielson, District Engineer

**Recommendation:**

Adopt a resolution (**Attachment B**) amending the agreement with NBS Government Finance Group for the Sanitation District Rate Study (Contract No. 2016-01).

**Item Summary:**

On December 1, 2015, the City Council awarded an agreement for the sanitation district rate study to NBS Government Finance Group (NBS). The intent of this study was to calculate a minimum equivalent dwelling unit fee for Sanitation District (District) users based on all anticipated district expenditures for a five year period.

In May 2016, staff presented an amendment for the District's Board approval to amend the original agreement. During the ensuing discussion the Board directed staff to return with a report that outlined alternatives to staff's original recommendation.

The staff report (**Attachment A**) outlines the options that are available for the District Board to approval as well as listing staff's recommendation. | |

**Fiscal Impact:**

If the amendment is approved, the original agreement will decrease from \$67,500 to \$25,630.27 funded by the Sanitation District Fund.

**Environmental Review:**

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Not subject to review         | <input type="checkbox"/> Negative Declaration           |
| <input type="checkbox"/> Categorical Exemption, Section [       ] | <input type="checkbox"/> Mitigated Negative Declaration |

**Public Information:**

- |  |   |   |
|--|---|---|
| <input checked="" type="checkbox"/> None                     | <input type="checkbox"/> Newsletter article   | <input type="checkbox"/> Notice to property owners within 300 ft. |
| <input type="checkbox"/> Notice published in local newspaper | <input type="checkbox"/> Neighborhood meeting |   |

**Attachments:**

- A. Staff Report
- B. Resolution
- C. NBS Cost Estimate



## LEMON GROVE SANITATION DISTRICT STAFF REPORT

Item No. 4

Mtg. Date August 2, 2016

Item Title: **Amendment to the Agreement with NBS Government Finance Group for the Sanitation District Rate Study**

Staff Contact: Mike James, Assistant City Manager / Public Works Director and Tim Gabrielson, District Engineer

### Background:

On June 28, 2002, the Board of Directors of the Lemon Grove Sanitation District adopted Resolution No. 183, which determined that an adjustment to the sewer service charge per equivalent dwelling unit (EDU) fee in the City was necessary to keep pace with inflation, City of San Diego Metropolitan Wastewater Department cost increases, and for both major and minor maintenance of the District's infrastructure.

In 2007, a financial model was created to analyze the various costs needed to operate and manage a sanitary sewer system. Some of those costs included:

1. The City of San Diego's Metropolitan Wastewater Department's (MWWD) costs to transfer and treat all wastewater they receive from the District,
2. Future MWWD capital improvement projects,
3. District generated capital improvement projects to operate a sanitary sewer system, and
4. Maintaining a mandatory program cash reserve for unforeseen operational and maintenance events.

On May 17, 2011, the Sanitation District Board (Board) approved a 3.75 percent rate increase for five consecutive years from Fiscal Year 2011-2012 (FY 2011-12) to FY 2015-16. At the time, the Board expressed an interest in reducing the recommended rate increase if at all possible in the future. Two examples when staff returned to the Board with recommended reductions to the annual rate increases occurred on:

- On June 19, 2012, staff presented the Board an opportunity to reduce the previously approved rate increase from 3.75% to 3.25% for FY 2012-13, 3.50% for FY 2013-14 and 3.75% for FY 2014-15 and FY 2015-16 which the Board subsequently approved through the adoption of Ordinance No. 25.
- On June 3, 2014, the Board adopted Ordinance No. 26 which reduced the previously approved sewer rate increase for FY 2014-15 and FY 2015-16 to 1.72%.

More recently in 2015, the District Board approved an agreement with NBS Government Finance Group (NBS) to prepare a sanitation district rate study to calculate a minimum equivalent dwelling unit fee for the next five year period. After receiving a report from NBS, the District Board did not change the annual sewer service charge from FY 2015-16 to FY 2016-17.

On May 3, 2016, city staff presented a report that recommended an amendment to the professional services agreement with NBS Government Financial Group (NBS) to increase its scope of work as well as provide additional services. During that meeting, District staff was directed to evaluate other alternatives and return at a later date with alternatives and a recommendation for the Board to consider in FY 2017-18 and beyond. This report was created to respond to that specific request.

# Attachment A

## Discussion:

The current agreement with NBS outlines 11 tasks that were to be performed. As was discussed during the May 3<sup>rd</sup> District Board meeting, the consultant completed a large portion of those tasks. The remaining work primarily focused on finalizing the rate study and meeting the requirements to adhere to Proposition 218 noticing. At the conclusion of the agenda item discussion the Board directed staff to evaluate two options that staff should consider and in order to complete the final sanitation district rate study. Listed below are the two options, the benefits/drawbacks of each option, and concludes with staff's recommendation to the District Board.

### Option 1: End the Agreement and Advertise a Request for Proposals

The District Board first discussed this option when considering alternatives to staff's recommendation on May 3, 2016. The central premise of this option would immediately end the agreement with NBS. At that time, the final invoice will be processed. The estimated remaining cost payable to NBS equals \$1,980.00, which brings the total amount paid to NBS equal to \$16,325.27. After which, staff will immediately begin the advertisement process of a new request for proposals (RFP) to seek another consultant to perform a five year sanitation district rate study for the years Fiscal Year 2017-18 through Fiscal Year 2021-22.

The benefits of this option include re-evaluating the revenues/expenditures for a new five year period, selecting another consultant that may perform said work with a different methodology, incorporating the Proposition 218 noticing process into the five year study, and creating a new RFP that includes additional work items that the District Board expressed an interest in performing.

The drawbacks include extending the amount of time and funds to complete the sanitation district rate study, possibly increasing the redundancy with work performed in a relatively short amount of time, and re-advertising does not guarantee that the methodology will not be similar to process that a different consultant may perform.

### Option 2: Amend Agreement and Complete the Five Year Rate Study

The second option discussed by the District Board augments the existing agreement with NBS to include a connection fee analysis that can be fulfilled within the same duration of the original agreement while still reducing the total agreement cost. This option will result in an additional cost payable to NBS of \$11,285.00 (**Attachment C**), which brings the total amount payable equal to \$25,630.27.

The benefits of this option includes reducing the total agreement cost, creating a connection fee analysis that, if accepted, can be quickly implemented, and it will still yield a completed five year rate study that the District Board can still utilize from FY 2017-18 through FY 2020-21.

The drawbacks include adding a task to the existing scope of work and not completing Proposition 218 noticing which district staff will still have to perform in the future.

### Moving Forward:

Of the two options, staff recommends that the District Board direct staff to implement Option 2. After reviewing the benefits and drawbacks, staff considers the benefits of Option 2 outweigh the drawbacks. By completing the five year rate study and connection fee analysis, staff feels the final products provide the most deliverables that will place the District in the best fiscal position moving forward.

# Attachment A

**Conclusion:**

That the District Board adopts a resolution (**Attachment B**) amending the agreement with NBS Government Finance Group for the Sanitation District Rate Study (Contract No. 2016-01).



# Attachment B

## RESOLUTION NO. 2016 -

### RESOLUTION OF THE DISTRICT BOARD OF THE LEMON GROVE SANITATION DISTRICT AMENDING A PROFESSIONAL SERVICES AGREEMENT WITH NBS GOVERNMENT FINANCE GROUP FOR THE SANITATION DISTRICT RATE STUDY (CONTRACT NO. 2016-01)

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**WHEREAS**, on June 28, 2002, the Board of Directors adopted Resolution No. 183 to adjust exist sewer rates; and

**WHEREAS**, in 2007, a financial model was created to analyze the various costs needed to operate and manage a sanitary sewer system; and

**WHEREAS**, each fiscal year the rates charged per equivalent dwelling unit (EDU) should account for the increased costs associated with transporting and treating wastewater from the District, maintaining the capital infrastructure in the District, and provide necessary fund reserves for unforeseen operational and capital shortfalls; and

**WHEREAS**, the District anticipates several increases in operational, maintenance, treatment, transportation, and capital improvement costs over the next 5 to 10 years; and

**WHEREAS**, there is a need to reanalyze the current environment by performing a financial modeling plan that will evaluate current sewer rates relative to the operational and maintenance obligations; and

**WHEREAS**, the District relies on the expertise of a consulting firm that possesses expertise in completing sanitation rate studies and financial modeling plans; and

**WHEREAS**, the District has a need to continue working with NBS Government Finance Group to provide a connection fee analysis as an additional task that to the original agreement; and

**WHEREAS**, the final product of NBS Government Finance Group's will include a five year rate study, capital project assessment and connection fee analysis will better position the District to operate and maintain its level of service to the residents of Lemon Grove. ]

**NOW, THEREFORE, BE IT RESOLVED** that the District Board of the Lemon Grove Roadway Lighting District hereby: ]

1. Establishes a project budget not to exceed twenty-five thousand six hundred thirty dollars and twenty seven cents (\$25,630.27); and
2. Authorizes the Executive Director, or her designee, to execute the agreement and manage all project correspondence.

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# Attachment C

<b>Lemon Grove Sanitation District</b> <b>Sanitary Sewer Rate Study</b> <i>Cost Estimate for Remaining Project Tasks</i>					
Rate Study Tasks	Consultant Labor (Hours)			Grand Totals	
	Project Principal (Clumpner)	Project Manager (Boehler)	Analysts (Henry, Narayanan)	Consultant Labor (Hrs.)	Consultant Costs (\$)
<i>Hourly Rate</i>	\$235	\$175	\$135		
Task 1 – Complete Study and Final Report	2.0	4.0	6.0	12.0	\$ 1,980
Task 2 – Sewer Connection Fees	4.0	16.0	28.0	48.0	\$ 7,520
Task 3 – Board of Director's Presentation <sup>1</sup>	1.0	8.0	-	9.0	\$ 1,635
<b>Task Totals</b>	<b>7.0</b>	<b>28.0</b>	<b>34.0</b>	<b>69.0</b>	<b>\$ 11,135</b>
Reimbursable Expenses <sup>2</sup>					\$ 150
<b>GRAND TOTAL</b>	<b>7.0</b>	<b>28.0</b>	<b>34.0</b>	<b>69.0</b>	<b>\$ 11,285</b>